MANFOR LTD.
1984 ANNUAL REPORT

MANITOBA

MINISTER RESPONSIBLE FOR
MANITOBA FORESTRY RESOURCES LIMITED

WINNIPEG
R3C 0V8

May 22, 1985

The Honourable Pearl McGonigal
Lieutenant-Governor
Province of Manitoba
Winnipeg, Manitoba

May It Please Your Honour:

I have the honour to submit the Annual Report of Manfor Ltd. for the year ended September 30, 1984.

Respectfully submitted,

Jerry Storie
Minister

MANFOR LTD.
OFFICE OF THE CHAIRMAN OF THE BOARD
148 Fischer Avenue, Box 2872, The Pas, Manitoba R9A 1M6
Phone (204) 623-3788 Telex 07-666578

April 2, 1985

Honourable Jerry Storie
Minister Responsible for
Manfor Ltd.

Sir:

In accordance with Section 8(1) of The Manitoba Natural Resources Development Act, I have the honour to present the Annual Report for Manfor Ltd. for the fiscal year ended September 30, 1984.

The Company year 1983-84 saw some major changes for Manfor Ltd. Work was well underway in two major retrofit projects. Significant market changes in the price of pulp and paper had allowed the Company to surpass its objective of cutting the previous year's deficit in half.

By December, 1984 the price of market pulp had slumped and there was downward pressure on paper prices. These developments, while not in line with the Company's ten year projection, confirmed the absolute necessity of Manfor developing a new product, Super Performance Kraft (SPK), and achieving a niche in that specialty market. The Company is particularly vulnerable to market forces and changes in product prices have a double barrelled effect on the Company's bottom line. This fact is central to the Company's short term recovery initiatives:

(a) The Company is determined to continue to reduce its operating deficit even though that means some developmental plans may have to be moved forward in time. Establishing a sound track record remains a first priority.

(b) The Company remains committed to an initial market strategy which will see it obtain and hold a portion of the North American multiwall market. This will serve as the Company's "bread and butter" account and will be the foundation on which the Company will build.

The forest products industry is not enjoying the recovery to the degree that other manufacturing sectors are. Markets remain turbulent and significant international events including unforeseen currency realignments are occurring which may have the effect of changing the face of the forest products industry forever. However, these are the hard realities of the markets faced by this Company. They require us to work harder and work smarter.

Market forces can only be addressed and with some diligence, anticipated; they cannot be controlled. Only costs can be controlled. We expect some considerable cost improvement as a result of the retrofit but new and innovative ways of controlling costs will have to be the next chapter in the Company's history if this firm is to survive. Accordingly, an intensive analysis of cost reduction possibilities over both the short and long term has been underway for several months.

At this time, it is also appropriate to acknowledge the continuing contribution made throughout the year by all Manfor employees. Their dedication, support and participation makes the achievement of Manfor's goals possible.

I remain confident that given reasonable markets and continued shareholder support in the tough days ahead, Manfor will survive in the forest products' world of the future.

Respectfully submitted,

Murray O. Harvey
Chairman of the Board
Manfor Ltd.

MOH/am

MANFOR LTD.

Auditor's Report and Financial Statements
for the year ended September 30, 1984

PROVINCE OF MANITOBA
PROVINCIAL AUDITOR

MANITOBA

PROVINCE OF MANITOBA
PROVINCIAL AUDITOR

MANFOR LTD.

REPORT OF THE PROVINCIAL AUDITOR'S OFFICE

We have examined the balance sheet of Manfor Ltd. as at September 30, 1984 and the statements of operating deficit, operations and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at September 30, 1984 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

W. K. Ziprick, C.A.,
Provincial Auditor.

November 30, 1984,
Winnipeg, Manitoba.

MANFOR LTD.

BALANCE SHEET
AS AT SEPTEMBER 30, 1984

ASSETS

	1984	1983
	(Thousands of Dollars)	
CURRENT		
Accounts receivable - note 2	$ 13,589	$ 11,044
Inventories - notes 1 and 4	19,763	14,452
Prepaid expenses	854	876
	34,206	26,372
LONG TERM RECEIVABLES - note 3	53	206
FIXED - notes 1 and 5		
Land, buildings, machinery, roads, logging facilities and equipment	122,835	103,856
Rental housing properties	1,903	1,844
	124,738	105,700
Less accumulated depreciation	53,030	48,101
	71,708	57,599
DEFERRED CHARGES - note 1		
Start-up and development costs	11,381	11,381
Less accumulated amortization	6,283	6,283
	5,098	5,098
	$ 111,065	$ 89,275

Approved on behalf of the Board:

Robert R. Wilson Director

Director

Statement 1

LIABILITIES

	1984	1983
	(Thousands of Dollars)	
CURRENT		
Bank indebtedness - note 6	$ 2,585	$ 1,967
Accounts payable and accrued liabilities	13,021	6,462
Current portion of mortgages payable	33	33
	15,639	8,462
LONG TERM DEBT - note 7	1,188	1,188
	16,827	9,650

SHARE CAPITAL AND DEFICIT

SHARE CAPITAL - note 8	184,020	160,020
OPERATING DEFICIT	(89,782)	(80,395)
	94,238	79,625
	$ 111,065	$ 89,275

MANFOR LTD.

STATEMENT OF OPERATING DEFICIT
FOR THE YEAR ENDED SEPTEMBER 30, 1984

	1984	1983
	(Thousands of Dollars)	
BALANCE, BEGINNING OF YEAR	$ 80,395	$ 55,647
Net loss for the year	9,387	24,748
BALANCE, END OF YEAR	$ 89,782	$ 80,395

MANFOR LTD.

STATEMENT OF OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 1984

	1984	1983
	(Thousands of Dollars)	
SALES		
Pulp and paper	$ 67,549	$ 57,407
Lumber	5,495	6,751
Other	649	671
	73,693	64,829
EXPENSES		
Cost of sales	58,456	62,265
Selling expenses	10,271	10,976
General and administrative	8,652	7,663
	77,379	80,904
OPERATING LOSS	3,686	16,075
OTHER EXPENSES		
Interest	146	3,140
Depreciation - note 1	5,559	5,284
(Gain) loss on sale of fixed assets	(4)	79
Sales tax assessment	-	40
Write down fence post plant	-	130
	5,701	8,673
NET LOSS FOR THE YEAR	$ 9,387	$ 24,748

MANFOR LTD.

STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 1984

	1984	1983
	(Thousands of Dollars)	
SOURCE OF FUNDS		
Proceeds from sale of fixed assets	$ 229	$ 208
Assumption of mortgage payable	32	-
Proceeds from Government grants	4,315	167
Reduction in long term receivables	154	159
	4,730	534
Province of Manitoba		
Issue of preferred shares	24,000	79,988
Issue of income debentures	-	4,401
Advances	-	6,953
	24,000	91,342
	28,730	91,876
APPLICATION OF FUNDS		
Applied to operations (net loss less depreciation and fixed asset losses)	3,832	19,257
Additions to fixed assets	24,209	2,737
Decrease in mortgages payable	32	55
	28,073	22,049
Province of Manitoba		
Retirement of long term debt	-	105,739
Repayment of advances	-	17,520
	-	123,259
Less capital deficit account written off	-	51,271
	-	71,988
	28,073	94,037
INCREASE (DECREASE) IN WORKING CAPITAL	657	(2,161)
Working capital, beginning of year	17,910	20,071
WORKING CAPITAL, END OF YEAR	$ 18,567	$ 17,910
Represented by		
Current assets	$ 34,206	$ 26,372
Current liabilties	15,639	8,462
	$ 18,567	$ 17,910

MANFOR LTD.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 1984

1. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies of the company.

(a) Inventories

Inventories are valued using the following methods:

Log inventories - lower of cost and net realizable value

Work in process (pulp chips, pulp and lumber) - lower of cost and net realizable value

Finished goods (pulp, paper and lumber) - lower of cost and net realizable value

Mill stores, chemicals, fuel and other supplies - lower of cost and replacement cost

Cost is generally determined on an average cost basis.

(b) Depreciation

Depreciation is being applied on the following basis:

Fixed assets, except those pertaining to the Woodlands and Real Estate Divisions, and all mobile equipment, are depreciated on a straight-line pooled basis over twenty years. The cost of fixed assets removed less recovery from disposal proceeds is charged to accumulated depreciation. Gains and losses incurred on the disposal of fixed assets pertaining to the Woodlands and Real Estate Divisions and mobile equipment are credited or charged to operations.

Woodlands Division:

Camp buildings	- straight-line over ten years
Logging equipment	- hours used related to estimated total useable hours
Roads and railspurs	- timber delivered to the millsite related to estimated total yield of area serviced
Other equipment	- straight-line over three to twenty years

Real Estate Division:

Rental housing properties	- straight-line over forty years
Mobile Equipment	- hours used related to estimated total useable hours

MANFOR LTD.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 1984

(c) Deferred Charges

Deferred charges consist of start-up and development costs of $11,381,000 being net expenditures by the Receiver on operations during receivership exclusive of depreciation charges and interest charges by the Manitoba Development Corporation. The company established a policy of amortizing the deferred charges to the extent of income available in each year.

(d) Foreign Exchange

Current assets and liabilities of the company expressed in United States dollars are translated into Canadian dollars at the rate of exchange on the balance sheet date. The resulting net gain or loss is reflected in operations.

(e) Restatement of 1983 figures

Certain 1983 figures have been reclassified to provide proper comparisons to 1984.

2. ACCOUNTS RECEIVABLE

	1984	1983
	(Thousands of Dollars)	
Trade	$ 8,726	$ 10,419
Due from Receiver	117	117
Other	444	379
Current portion of long term receivable	121	129
Government of Canada, D.R.I.E., accrued portion - note 5	4,181	-
	$ 13,589	$ 11,044

3. LONG TERM RECEIVABLES

During 1982 camp facilities at Talbot Lake were sold to Moose Lake Loggers Ltd. Repayment of the note is based on production purchased from Moose Lake Loggers Ltd. with interest based on floating current rates.

MANFOR LTD.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 1984

4. INVENTORIES

Inventories consist of the following:

	1984	1983
	(Thousands of Dollars)	
Raw materials	$ 8,330	$ 4,131
Work in process	977	911
Finished goods	3,585	2,953
Mill stores, chemicals, fuel and other supplies	6,871	6,457
	$ 19,763	$ 14,452

5. FIXED ASSETS

Land, building, machinery, roads, logging facilities and equipment, except the machinery plant, were valued on the basis of inventoried expenditures to the date of receivership, January 7, 1971, amounting to $64,753,000, including a reasonable assessment for engineering and supervision fees and interest charges. The Engineering Division fixed assets were valued at $500,000 on the basis of an estimated useful value to the integrated operations at January 7, 1971. Subsequent fixed asset additions and construction in progress as at September 30, 1984, have been recorded at cost. The company has deducted government grants received or receivable from the cost of fixed assets acquired. These grants aggregated $16,638,000 as at September 30, 1984.

A major project for the modernization of the pulp and paper mill and the sawmill was initiated during the year. Expenditures on the project to September 30, 1984 total $20,500,000. It is anticipated that additional costs of $28,000,000 will be incurred in order to complete the project, including amounts which have been committed at September 30, 1984 of $13,300,000. It is expected that the project will be completed during the 1985 fiscal year.

Under an agreement with the Government of Canada, Department of Regional Industrial Expansion, the Company will receive $10,058,125 to fund a portion of the costs of the project. Proceeds from the issue of preferred shares to the Province of Manitoba will be used to fund the balance of the project - note 8.

MANFOR LTD.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 1984

6. BANK INDEBTEDNESS

	1984	1983
	(Thousands of Dollars)	
Bank loan	$ 900	$ 900
Bank overdraft	1,685	1,067
	$ 2,585	$ 1,967

The Company's bank indebtedness is secured by inventories, a general assignment of accounts receivable and an assignment of fire insurance on inventories.

7. LONG TERM DEBT

	1984	1983
	(Thousands of Dollars)	
Mortgages payable on rental properties with interest rates from 6% to 10 1/2% maturing 1995 to 2006	$ 1,221	$ 1,221
Less current portion	33	33
	$ 1,188	$ 1,188

8. SHARE CAPITAL

The Company is wholly-owned by the Province of Manitoba and is incorporated under the authority of The Manitoba Natural Resources Development Act.

During the year, a new class of preferred shares was authorized and designated as Class "B". The previously authorized class of preferred shares was designated as Class "A".

At September 30, 1984, the authorized share capital of the Company is comprised of the following:

Common Shares:

Unlimited number of shares of $1 par value.

MANFOR LTD.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 1984

8. SHARE CAPITAL (continued)

Preferred Shares:

Class "A"

Unlimited, non-participating, non-voting, carrying a non-cumulative dividend entitlement of 7%, redeemable at $1 per share.

Class "B"

Unlimited, retractable, non-voting, carrying a cumulative dividend entitlement of 11%, redeemable at $1 per share.

Common shares outstanding at September 30, 1983 and 1984	$ 20,000,000
Class "A" preferred shares outstanding at September 30, 1983	140,020,000
Add: Issued during the fiscal year to the Province of Manitoba for additional funding	15,000,000
Class"A" preferred shares outstanding at September 30, 1984	$ 155,020,000
Class "B" preferred shares issued during the fiscal year to the Province of Manitoba for additional funding	9,000,000
Class"B" preferred shares outstanding at September 30, 1984	$ 9,000,000
Total shares issued at September 30, 1984	$ 184,020,000

The arrears of dividends on the Class "B" preferred shares calculated to September 30, 1984 was $246,251.

Subsequent to the year end, an additional $8,803,000 of Class "A" and $5,000,000 of Class "B" preferred shares were issued for cash.

9. COMMITMENTS

Commitments at September 30, 1984, in addition to those disclosed in note 5, relating principally to the purchase of equipment for future delivery and uncompleted contracts, were approximately $1,285,000.

MANFOR LTD.

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 1984

10. UNFUNDED ACTUARIAL LIABILITY

The pension plan for hourly paid employees represented by the Canadian Paperworkers Union was amended effective December 1, 1983 to increase monthly pension benefits. On the basis of an actuarial valuation, this benefit improvement created an unfunded liability at December 31, 1983 of $207,913 which will be funded by annual installments of $19,976 for each of the years 1984 to 2000 in accordance with The Pension Benefits Act.

11. ECONOMIC DEPENDENCE

The Company is economically dependent on the Government of the Province of Manitoba.

12. CHANGE OF NAME

The Company changed its name effective September 30, 1984 from Manitoba Forestry Resources Ltd. to Manfor Ltd.